



# **COMPLIANCE AND CONTROL AUDIT REPORT**

**State Library**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
April 2004**

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

The **Legislative Post Audit Committee** and its audit agency, the **Legislative Division of Post Audit**, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the Chairman and Vice-

Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

### **LEGISLATIVE POST AUDIT COMMITTEE**

Senator Derek Schmidt, Chair  
Senator Bill Bunten  
Senator Anthony Hensley  
Senator Dave Kerr  
Senator Chris Steineger

Representative John Edmonds, Vice-Chair  
Representative Tom Burroughs  
Representative Bill McCreary  
Representative Frank Miller  
Representative Dan Thimesch

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Barbara J. Hinton, Legislative Post Auditor

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*LEGISLATURE OF KANSAS*  
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April 20, 2004

To: Members, Legislative Post Audit Committee

Senator Derek Schmidt, Chair  
Senator Bill Bunten  
Senator Anthony Hensley  
Senator Dave Kerr  
Senator Chris Steineger

Representative John Edmonds, Vice-Chair  
Representative Tom Burroughs  
Representative Bill McCreary  
Representative Frank Miller  
Representative Dan Thimesch

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the State Library.

The report includes two recommendations for improving the Library's oversight and administration of grants to local libraries. The report also notes that some local libraries weren't adhering to federal cash management rules. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink, reading "Barbara J. Hinton". The signature is written in a cursive, flowing style with a large, prominent initial 'B'.

Barbara J. Hinton  
Legislative Post Auditor

## Get the Big Picture

Read these Sections and Features:

1. **Executive Summary** - an overview of the questions we asked and the answers we found.
2. **Conclusion and Recommendations** - are referenced in the Executive Summary and appear in a box after each question in the report.
3. **Agency Response** - also referenced in the Executive Summary and is the last Appendix.

## *Helpful Tools for Getting to the Detail* 🔑

- In most cases, an “**At a Glance**” description of the agency or department appears within the first few pages of the main report.
- **Side Headings** point out key issues and findings.
- **Charts/Tables** may be found throughout the report, and help provide a picture of what we found.
- **Narrative text boxes** can highlight interesting information, or provide detailed examples of problems we found.
- **Appendices** may include additional supporting documentation, along with the audit **Scope Statement** and **Agency Response(s)**.

# EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

## Has the State Library Provided Adequate Oversight for Local Spending of Grants?

**With a few exceptions, the State Library had adequate procedures to ensure that local grant moneys were spent appropriately.** ..... page 3  
*The Library could make better use of available annual audits as a monitoring tool. In addition, because some grants appear to be purchases of services made in the form of grants, the Library should consult with the Division of Purchases to make sure those transactions are handled as required by State law. Finally, although some local libraries apparently weren't adhering to federal cash management rules, the responsible federal agency isn't enforcing those rules.*

**Recommendations** ..... pages 4, 5

**Appendix A: Agency Response** ..... page 6

This audit was conducted by Randy Tongier. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us).



The Legislative Division of Post Audit has conducted compliance and control audit work at the State Library. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on the Library's oversight of grants to local organizations. The audit addresses the following specific question:

**Has the State Library provided adequate oversight for local spending of grants?**

To answer this question, we reviewed applicable statutes and regulations, and identified standard grant oversight practices. We also interviewed appropriate Library staff members, and reviewed grant files and records.

In conducting this audit, we followed all applicable government auditing standards.

## State Library AT A GLANCE

**Authority:** Created by K.S.A. 75-2524.

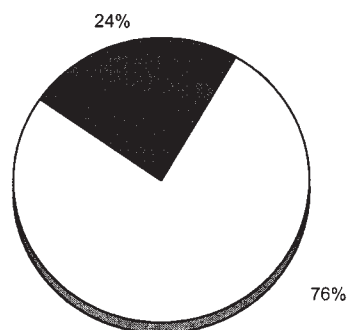
**Staffing:** The Library has 27 full-time-equivalent positions.

**Budget:** The Library's major funding comes from General Fund appropriations. The Library also receives moneys from federal grants. For fiscal year 2003, the State Library took in and spent about \$6.5 million as shown below. Most of these moneys were payments to regional and local libraries.

### FY 2003 Expenditures

<u>Type</u>	<u>Amount</u>	<u>% of Total</u>
Aid to Local Governments	\$3,749,762	58%
Salaries & Wages	1,110,068	17%
Contactual Services	880,664	14%
Other Assistance	498,977	8%
Commodities	109,548	2%
Non-Expense Items	93,073	1%
Capital Outlay & Improvements	64,527	1%
<b>Total Expenses:</b>	<b>\$6,506,619</b>	<b>100%</b>

### Sources for Funding for Expenditures



**Total Funding: \$6,506,619**

Source: *The Governor's Budget Report*, Vol. 2, FY 2005.

## Has the State Library Provided Adequate Oversight for Local Spending of Grants?

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The Library's procedures for overseeing how local organizations spent grants received from the Commission generally were well-designed and operating effectively during the period we reviewed. Nevertheless, some improvements are needed. The Library could make better use of available annual audits as a monitoring. In addition, some State Library grants appear to be purchases of services made in the form of grants. We also noted that the Library hasn't monitored its grantees for compliance with federal cash management requirements. These findings are discussed in more detail in the sections that follow.

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### ***With a Few Exceptions, The State Library Had Adequate Procedures To Ensure That Local Grant Moneys Were Spent Appropriately***

The State Library is responsible for developing and implementing procedures to ensure that the local organizations it provides grants to spend those grant moneys appropriately. The Library makes grants to regional and local libraries to fund such things as operating expenses, interlibrary loan programs, improved use of technology, and programs for special populations such as the blind. To help ensure that the local organizations spend those moneys properly, the Library should do the following:

- identify the applicable programs for the local organizations and indicate whether any federal funds are involved
- inform local organizations about applicable compliance requirements
- monitor local organizations' spending of grant moneys
- respond appropriately to any problems found with the local organizations

To identify and evaluate the procedures used by the Library, we interviewed Library staff, reviewed applicable accounting records and files, and tested a sample of grants to local organizations. The Library's monitoring activities generally address all of the above aspects of ensuring appropriate spending by local organizations, but the Library can improve in a few areas.

**The State Library could make better use of available annual audits as a monitoring tool.** The State Library makes numerous grants to regional and local libraries, and is responsible for monitoring how those libraries spend the moneys received. One available way of doing so is to review any available audit reports on those libraries. State Library staff do review audit reports for most of the larger grantees—the regional library systems and the Shawnee County/Topeka Library. Given the Library's limited resources for monitoring and the limited amount of moneys involved in most of the grants, the Library's

focus on the larger grants makes sense. However, there are several significant grants for which Library staff don't routinely review audit reports.

The Kansas City, Shawnee Mission, and Wichita libraries all get annual grants of more than \$100,000. Local libraries such as these usually are included in the county or city audit report and may not even be separately identified in those reports. Because of this, Library staff could focus on audit report and management letter findings to see if any apply to the library operations.

<b><i>Recommendation</i></b>	To make better use of available audit in monitoring local libraries' use of grant moneys received from the State Library, Library staff should review annual audit results for the Kansas City, Shawnee Mission, and Wichita libraries. Because the library operation may not be separately reported on, that review could focus on audit report and management letter findings.
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**Some State Library grants appear to be purchases of services made in the form of grants.** During our testwork on Library Services and Technology Act grants, we noted 5 grants that appeared to be purchases of services. These grants ranged in size from \$8,475 to \$60,000. An example was work done by the University of Kansas Medical Center on Blue Skyways (the world wide web service for Kansas libraries), database services, and personnel training and staff development.

According to State Library officials, the current arrangements generally began as grants made to develop products or services not already existing, and that grant arrangement simply continued. In addition, those officials stated that the grant arrangement can provide them with better control over the services than a standard contracting arrangement.

Purchasing services in the form of grants bypasses standard State purchasing processes, some of which are required by the policies of the Division of Purchases as authorized by State law (K.S.A. 75-3738). For example, according to the Division of Purchases' Policy and Procedures Manual, purchases in amounts greater than \$25,000 must involve the Division's formal methods such as competitive bidding or negotiated procurement. Exceptions may be allowed, such as situations where only one vendor is able to provide the service needed, but those have to be approved by the Division.

For the situations we reviewed, it may be that other providers would be able to provide the services now obtained through the grants. Given the compliance aspect of this situation, the State Library should at least

consult with the Division of Purchases to make sure that the provisions of State law are met.

***Recommendation***

To ensure that the applicable provisions of State law are met, State Library officials should consult with the Division of Purchases about the current grants for purchases of services and about any future such situations.

**Although some local libraries apparently weren't adhering to federal cash management rules, the State Library has been following the guidance of its federal granting agency in overseeing this area.** Recipients of federal grant moneys are required to minimize the time between receipt and expenditure of federal grant moneys. This requirement applies not only to State agencies receiving grants directly from the federal government, but also to local organizations receiving federal grants through state agencies. Federal rules make the state agency responsible for ensuring that local organizations meet this requirement.

For all 7 of our test sample of Library Services and Technology Act grants, the local libraries didn't seem to limit the time between receipts and expenditures as called for by federal rules. We found that grant moneys weren't spent until at least one month after receipt. In one case, some grant moneys weren't spent until 8 months after receipt.

Although these local libraries apparently weren't in compliance with the rules, the federal Institute of Museum and Library Services has indicated to the State Library that it doesn't think these rules apply to local libraries. The Institute, as the State Library's federal oversight agency for this program, would be responsible for enforcing the federal rules.

## **APPENDIX A**

### **Agency Response**

On March 29, 2004, we provided a copy of the draft audit report to the State Library. The Library's response is included as this Appendix. In its response, the Library passed on a comment from the Institute of Museum and Library Services (the federal agency that oversees these grants) about the timing of federal grant expenditures by local libraries. The draft report pointed out that local libraries apparently aren't in compliance with federal cash management rules.

The Institute claims that federal cash management rules don't apply to the grants in question, and cites a federal publication in support of that claim. Legislative Post Audit reviewed that publication and found that the Institute seems to have misinterpreted that publication. On page 44275, that publication indicates that states are expected to "time the transfer of funds to subrecipients, to the maximum extent practicable, with the subrecipients' actual immediate funds requirements in carrying out the program or project." As indicated in the draft report, local libraries we reviewed received federal grant moneys from the State Library at least one month and as much as eight months before those moneys were spent.

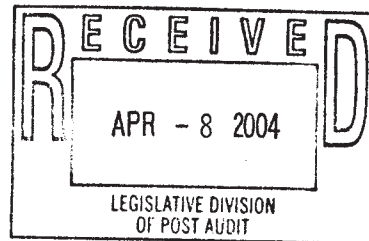
# Kansas State Library

Established August 25, 1855

Capitol Building • 300 SW 10th Ave • Topeka KS 66612-1593

April 7, 2004

Barbara J. Hinton, Legislative Post Auditor  
Legislative Division of Post Audit  
800 SW Jackson, Suite 1200  
Building Mail



About: Response to the draft compliance and control audit

Dear Ms Hinton:

Thank you for the opportunity to respond to the draft copy of the 2004 Compliance and Control Audit for the State Library. We concur with the findings and offer the following comments for each of the recommendations:

**Recommendation to make better use of available audits in monitoring local libraries' use of grant moneys received from the State Library.**

As recommended, we will make it a practice to examine local audits whenever and in whatever form they are available to our oversight of grant financial information and grant compliance.

**Recommendation to ensure that the applicable provisions of state law are met in making purchases.**

As recommended, we will consult with the Division of Purchases to clarify the circumstances that are appropriate for payments to be made as a grant award and the circumstances that require payments through state purchasing processes and we will see that our practices conform to these distinctions.

With regard to the final paragraphs of the audit stating that some local libraries receiving Library Services and Technology Act grant funding are not adhering to federal cash management rules as would be required by the Cash Management and Improvement Act, we asked our monitoring federal agency (Institute of Museum and Library Services) for a statement of the time schedule requirements or limitations on subgrantee expenditures. IMLS responded back with the following points about grant expenditure time requirements:

*IMLS has no requirement for the State Library or subgrantees for time allowed for expenditure of grant money within the one year grant period, a period which the State Library is allowed to extend as occasionally necessary to a second year.*


*The Library Services and Technology Act is not covered by the Cash Management and Improvement Act. IMLS cited the Federal Register article at which the CMIA-covered federal assistance programs are listed and showing IMLS that the LSTA is not included in this listing (FR Vol. 57, No. 186, September 24, 1992, pages 44272-81, and specifically, 44281).*

Barbara J. Hinton, Legislative Post Auditor, April 7, 2004, page 2

The four page Institute of Museum and Library Services statement to the State Library on CMIA issues and requirements and guidance on the 2004 grant award is available from the State Library on request.

Thank you very much for the effective work of the Legislative Division of Post Audit. The recommendations in the audit report will help us improve our financial management. We appreciate this help.

Respectfully yours,

A handwritten signature in black ink, appearing to read "Duane", written in a cursive style.

Duane Johnson  
State Librarian